

Venture Capital to Grow Your Aerospace Company

Written by Keevin Williams

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Increased talk of commercialization of some aspects of aerospace that have been traditionally performed by government agencies - coupled with the continued capital access challenges in the traditional lending markets - many aspiring aerospace entrepreneurs may be wondering how to capitalize their growing businesses. In previous blogs and “tweets” on Space Florida’s website, we have identified alternative funding sources, including State business incentives, SBIR and STTR funding programs and others. Recently, I had the opportunity to hear firsthand from venture capitalists while attending the Florida Economic Development Conference (in Tampa) and the Space Investment Summit 8 (SIS8) in Chicago. Since these conferences, Beth Kassab, a business columnist for the Orlando Sentinel, also commented about the need for venture dollars on the Space Coast (see

<http://www.orlandosentinel.com/business/os-cfb-kassab-nasa-jobs-06072010-20100604,0,5562247.column>

).

Given these recent events, I thought I would write this blog to share insight I gained so that you may determine whether angel and/or venture capital financing is a viable capital source for your aerospace company.

So, what company characteristics do angel and venture capitalists look for when making investment decisions? Above all, given the high risks they are taking (well beyond that of banks and other debt lenders), these investors seek high rewards – at least a 30-40% annual return on investment (ROI). Typically, companies that achieve this level of ROI have proven and passionate management teams with unique or innovative products or services that lead to competitive advantages in large growing markets. Perhaps Joshua Raffaelli, an associate and Kauffman Fellow at Draper, Fisher & Jurvetson, summed it up best during his remarks at the SIS8 when he cited Space Exploration as a company with potential to “disrupt markets and change the world.” Of course, not every new aerospace company needs to achieve the size and success of space exploration to be attractive to angel and venture capitalists. In fact, during SIS8 many small, but growing, aerospace companies presented their business plans to the investor community. Those companies with “buzz” successfully demonstrated the application of space-related technologies to terrestrial markets (such as human life support, emergency response, bio-products, green energy, and education).

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Although both angel investors and venture capitalists desire similar ROIs, there are some minor but important distinctions between the two groups that you should consider. Angel investors are usually high net worth individuals seeking to invest between \$25K – \$500K, oftentimes in new or early-stage companies, as part of their overall personal investment portfolio mix. Angel investors are generally not active in the management of the companies they invest in. In contrast, venture capitalists are usually investment professionals that are managing funds provided by limited partners (LPs) such as pension funds or mutual fund companies. Given the judiciary duty owed to the LPs, venture capitalists are likely to be very active in the management of the companies in which they invest. Venture capitalists generally invest \$1.5MM – \$5MM in companies with an earnings history and/or strong growth potential. Both groups of investors require an exit strategy for their return of their equity investment as well as a ROI. This important success metric is usually an IPO (likely preferred) or an acquisition, usually within 3 – 7 years of the initial investment.

So, given the above, what are the next steps if your company appears to be a viable candidate for venture capital? Well, update your company's business plan and financials and discuss your interest with your legal, accounting, banking or other business advisors. It is likely that these professionals will have access to the venture capital community. Additionally, as I have indicated in earlier tweets, you may want to contact the funds created in recent years by the Florida Legislature – the Florida Opportunity Fund (www.floridaopportunityfund.com) and the Florida Growth Fund (www.floridagrowthfund.com).

Additional sources of information include the Florida Venture Forum (www.floridaventureforum.org) and the Florida Network (www.floridaangel.com).